



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

# *Department of Environmental Quality*

*For the Two Fiscal Years Ended  
June 30, 2016*

NOVEMBER 2016

LEGISLATIVE AUDIT  
DIVISION

16-16

## FINANCIAL-COMPLIANCE AUDITS

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Financial-compliance audits are conducted by the Legislative Audit Division to determine whether an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) licenses.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by Government Auditing Standards. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2015, was issued March 29, 2016. The Single Audit Report for the two fiscal years ended June 30, 2017, will be issued by March 31, 2018. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator  
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Room 277, State Capitol  
P.O. Box 200802  
Helena, MT 59620-0802

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Room 160, State Capitol  
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# LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
Joe Murray

November 2016

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Environmental Quality (department) for the two fiscal years ended June 30, 2016. Our report contains no recommendations.

The department's written response is included in the audit report on page C-1. We thank the director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

*/s/ Angus Maciver*

Angus Maciver  
Legislative Auditor



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## APPOINTED AND ADMINISTRATIVE OFFICIALS

### Department of Environmental Quality

Tom Livers, Director

George Mathieus, Deputy Director

Peggy MacEwen, Central Services Division Administrator

Christopher Dorrington, Air, Energy & Mining Division Administrator

John Arrigo, Enforcement Division Administrator

Jenny Chambers, Waste Management & Remediation Division  
Administrator

Christian Schmidt, Water Quality Division Administrator

			<u>Term Expires</u>
<b>Board of Environmental Review</b>	Joan Miles, Chair	Helena	January 1, 2017
	Marietta Canty	Clancy	January 1, 2017
	Dr. Robert Byron	Hardin	January 1, 2019
	Roy Sayles O'Connor	Missoula	January 1, 2019
	Michele Reinhart Levine	Great Falls	January 1, 2019
	Robin Shropshire	Helena	January 1, 2017
	Chris Tweeten	Missoula	January 1, 2017
<b>Petroleum Tank Release Compensation Board</b>	Mark Allen Johnson	Bozeman	July 1, 2019
	Jerry Breen	Choteau	July 1, 2019
	Kate Cassidy	Whitefish	July 1, 2017
	Susan Fenner	Great Falls	July 1, 2017
	Timothy McDermott	Bozeman	July 1, 2018
	Keith Schnider	Great Falls	July 1, 2019
	John "Chuck" Thompson	Missoula	July 1, 2018

For additional information concerning the Department of Environmental Quality, contact:

Kristi Ponozzo, Public Policy Director  
Department of Environmental Quality  
Office: 406-444-2813  
Mobile: 406-422-2537  
e-mail: [KPonozzo@mt.gov](mailto:KPonozzo@mt.gov)





# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL-COMPLIANCE AUDIT

### Department of Environmental Quality For the Two Fiscal Years Ended June 30, 2016

NOVEMBER 2016

16-16

REPORT SUMMARY

The Department of Environmental Quality administers environmental protection and enforcement efforts of the state of Montana, including remediation of environmental damage and enforcement of the state's environmental laws. The department had \$134.7 million of expenditures in fiscal year 2015 and \$140 million in fiscal year 2016.

### Context

The Department of Environmental Quality (department) promotes environmental quality through programs to promote air quality; improve water supply, wastewater, and solid waste disposal infrastructure; regulate the discharge of pollutants; enforce the environmental laws of the state; and ensure remediation and reclamation at the sites of past natural resource damages. During fiscal year 2016, the department reorganized the administration of these programs in an effort to be more efficient.

The department is funded by state revenue collected through License and Permits, Charges for Services, and Investment Earnings. The department also receives federal grants related to the State Revolving Fund loan programs and multiple other grants. The department reported revenues and transfers-in totaling \$30.6 million in the State Special Revenue Fund and \$66.2 million in the Federal Special Revenue Fund in fiscal year 2015 and \$31.5 million in the State Special Revenue Fund and \$35.0 million in the Federal Special Revenue Fund in fiscal year 2016. One of the main factors for the large decrease in federal revenues was several multi-year grants coming

to an end in the Abandoned Mine program in fiscal year 2015.

### Results

During the course of the audit, we reviewed the internal control procedures and tested selected transactions related to the revenues generated from transfers-in, licensing and permitting, and the State Revolving Fund loan programs. We also reviewed expenditures related to personal services, other services and transfers-out. The report contains no recommendations.

Our prior audit report for the two fiscal years ended June 30, 2014, contained five recommendations. The department implemented all five recommendations.

For a complete copy of the report (16-16) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>

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Call toll-free 1-800-222-4446, or e-mail [ladhotline@mt.gov](mailto:ladhotline@mt.gov).



# Chapter I – Introduction

## **Introduction**

We performed a financial-compliance audit of the Department of Environmental Quality (department) for the two fiscal years ended June 30, 2016. The objectives of the audit were to:

1. Determine the department's compliance with selected state and federal laws and regulations.
2. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the department.
3. Determine the implementation status of prior audit recommendations.
4. Determine whether the department's financial schedules present fairly the results of operations and changes in fund equity for each of the two fiscal years ended June 30, 2016, and June 30, 2015.

During the course of the audit, we reviewed the internal control procedures and tested selected transactions related to the revenues generated from transfers-in, licensing and permitting and the State Revolving Fund loan programs. We also reviewed expenditures related to personal services, other services and transfers-out. The report contains no recommendations.

In accordance with §17-8-101(6), MCA, we reviewed the fees and charges and the fund equity of the department's Internal Service Fund. We considered fees and charges commensurate with costs if working capital does not exceed 60 days of expenditure activity for the fund. The department has one Internal Service Fund, which funds the Central Management Program. We reviewed the Internal Service Fund activity and determined the fees and charges are commensurate with costs and the fund equity balance is reasonable.

## **Background**

The department administers certain environmental and natural resource functions of state government. The department is currently organized according to the following functions: Air, Energy, and Mining; Water; Waste Management, and Remediation; and Enforcement.

The department was previously organized in a functional structure of planning, permitting, enforcement, and remediation. During fiscal year 2016, the department analyzed efforts for effectiveness which led to a reorganization creating the programs

as identified below. Total authorized full-time equivalent employees (FTE) for the department are identified within each category. The categories are listed by division name as listed on the schedule of expenditures and transfers-out on page A-7. They are also listed by program numbers which are assigned by the department. Further discussion of the programs and the effect of the reorganization is located on page A-12, Note 7.

**Centralized Services Division (Program 10)** (64.14 FTE) consists of the Director's Office and the Centralized Services Division. The Centralized Services Division provides department-wide support relating to human resources, safety, information technology, accounting, budget, and records management. The Director's Office includes the director's staff, the deputy director, the public policy director, centralized legal pool, and the functions of the Montana Environmental Policy Act and the Montana Facility Siting Act. The Montana Facility Siting Act, previously in Program 50, now resides in this program. Expenditures for the board are recorded in the Central Management Program.

**Board of Environmental Review (BER)** is established by §2-15-3502, MCA, as a quasi-judicial board consisting of seven members appointed by the governor. BER reviews administrative decisions made by the department that are appealed to it by affected parties as provided by statute. BER is attached to the department for administrative purposes only.

**Air, Energy & Mining Division (Program 50)** (106.65 FTE) protects air quality through monitoring, permitting, and compliance assistance, minimizing environmental impacts from mining, and supporting infrastructure for wind, hydroelectric, solar, geothermal, and renewable fuels projects. This program was formally known as Permitting and Compliance Division. The Energy and Pollution Prevention Bureau, previously in Program 20, now resides in this program.

**Water Quality Division (Program 20)** (134.57 FTE) protects water quality through implementing measures that conserve the state's water resources through education, prevention, pollution control and clean up, and supporting public water supply providers with technical and financial assistance for drinking and wastewater systems. This program was formally known as Planning, Prevention, and Assistance Division with 83.5 FTE. The Water Protection, Public Water Supply, and Subdivision Bureaus, previously in Program 50, now reside in this program.

**Enforcement Division (Program 30)** (13.73 FTE) implements and tracks the department's formal enforcement activities, investigates and validates citizen complaints, and ensures that spills are cleaned up. Environmental statutes administered by the department authorize administrative or judicial enforcement actions that may

seek corrective actions and penalties for violations of permit requirements or standards. Enforcement actions are initiated against a wide range of regulated entities including public water suppliers, wastewater dischargers, air emissions sources, underground storage tank owners and operators, solid waste or hazardous waste management facilities, subdivisions, junk vehicle owners, asbestos abatement contractors, gravel pits, precious metal mines, and coal mines. This program remained intact during the 2016 reorganization.

**Waste Management & Remediation Division (Program 40)** (97.00 FTE) is responsible for overseeing investigation and cleanup activities at state and federal Superfund sites; reclaiming abandoned mine lands; regulating, permitting, and licensing underground storage tanks; implementing corrective actions at sites with leaking underground storage tanks; and overseeing groundwater remediation at sites where agricultural and industrial chemical spills have caused groundwater contamination; and administers the permitting and compliance of solid waste, hazardous waste, and junk vehicles. The Waste Management and Underground Tank Management Bureau, formally in Program 50, now resides in this program.

**Petroleum Tank Release Compensation Board (Program 90)** (5.60 FTE) oversees the Petroleum Tank Release Cleanup Fund, established by §75-11-313, MCA, which reimburses eligible owners for the costs of petroleum release cleanup. Fund administration is a joint responsibility of the board and the department. This program remained intact during the 2016 reorganization.

### **Prior Audit Recommendations**

Our prior audit report contained five recommendations, two related to accounting misstatements involving accounts receivables and account classification. Three other recommendations addressed noncompliance with the Federal Transparency Act, the department's moving and relocation policy, and the computer password security policy. The department has implemented all five recommendations.



# **Independent Auditor's Report and Department Financial Schedules**



## LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
Joe Murray

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

### *Introduction*

We have audited the accompanying Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Environmental Quality (department) for each of the fiscal years ended June 30, 2016, and 2015, and the related notes to the financial schedules.

### *Management's Responsibility for the Financial Schedules*

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the department's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles***

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, liabilities, and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

***Adverse Opinions on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the department as of June 30, 2016, and June 30, 2015, or changes in financial position or cash flows for the years then ended.

***Unmodified Opinions on Regulatory Basis of Accounting***

In our opinion, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out presents fairly, in all material respects, the results of operations and changes in fund equity of the department for each of the fiscal years ended June 30, 2016, and 2015, in conformity with the basis of accounting described in Note 1.

***Emphasis of Matter***

As discussed in Note 7, the department reorganized in fiscal year 2016. This reorganization is responsible for the differences between the fiscal year 2016 and fiscal year 2015 Schedules of Total Expenditures & Transfers-Out. Due to the reorganization, the presentation of the programs and related expenditures has changed between years, but the underlying activity has not changed. Our opinion is not modified with respect to this matter.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2016, on our consideration of the Department of Environmental Quality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

September 30, 2016

DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF CHANGES IN FUND EQUITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund
FUND EQUITY: July 1, 2015	\$ (901,447)	\$ 264,335,722	\$ 21,300,093	\$ 2,378,803	\$ 5,480,272	\$ (3,871,162)	\$ 27,234,801	\$ 15,773,366
ADDITIONS								
Budgeted Revenues & Transfers-In	23,890	18,302,905	23,528,390			7,448,794		
Nonbudgeted Revenues & Transfers-In	568,382	13,297,473	11,549,161	477,732	783	105,944	2,033,014	1,383,189
Prior Year Revenues & Transfers-In Adjustments	(176)	(81,962)	2,501	(38,786)		176,874		
Direct Entries to Fund Equity	5,197,377	19,403,298	(97,321)	1,181,816	(698,373)	(2,559)		
Total Additions	5,789,474	50,921,715	34,982,731	1,620,762	(697,590)	7,729,053	2,033,014	1,383,189
REDUCTIONS								
Budgeted Expenditures & Transfers-Out	5,467,572	33,696,878	21,090,047			7,779,643		
Nonbudgeted Expenditures & Transfers-Out		53,155,882	11,535,543	1,858,341		148,304	358,837	
Prior Year Expenditures & Transfers-Out Adjustments	(17,132)	(147,612)	(127,969)			581		
Total Reductions	5,450,440	86,705,148	32,497,620	1,858,341	0	7,928,528	358,837	0
FUND EQUITY: June 30, 2016	\$ (562,412)	\$ 228,552,289	\$ 23,785,204	\$ 2,141,224	\$ 4,782,682	\$ (4,070,637)	\$ 28,908,979	\$ 17,156,556

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF CHANGES IN FUND EQUITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund
FUND EQUITY: July 1, 2014	\$ (712,871)	\$ 281,720,826	\$ 12,091,630	\$ 2,767,836	\$ 4,738,412	\$ (775,846)	\$ 26,922,350	\$ 14,321,440
ADDITIONS								
Budgeted Revenues & Transfers-In	14,969	20,343,630	42,143,416			7,562,681		
Nonbudgeted Revenues & Transfers-In	252,609	9,911,904	24,137,284	455,873	2,933,128	85,233	521,827	1,451,926
Prior Year Revenues & Transfers-In Adjustments		359,307	2,613			(2,155)		
Direct Entries to Fund Equity	4,859,849	19,904,568	(200,939)	1,515,689	(2,191,269)	(3,323,159)		
Total Additions	5,127,427	50,519,408	66,082,374	1,971,562	741,860	4,322,599	521,827	1,451,926
REDUCTIONS								
Budgeted Expenditures & Transfers-Out	5,451,624	33,195,235	24,739,866			7,322,904		
Nonbudgeted Expenditures & Transfers-Out	(2,973)	34,910,810	32,278,788	2,360,595		91,326	209,376	
Prior Year Expenditures & Transfers-Out Adjustments	(132,649)	(201,533)	(144,744)			3,685		
Total Reductions	5,316,002	67,904,512	56,873,911	2,360,595	0	7,417,915	209,376	0
FUND EQUITY: June 30, 2015	\$ (901,447)	\$ 264,335,722	\$ 21,300,093	\$ 2,378,803	\$ 5,480,272	\$ (3,871,162)	\$ 27,234,801	\$ 15,773,366

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS									
Licenses and Permits	\$ 12,000	\$ 10,973,323							\$ 10,985,323
Taxes			\$ 2,501						2,501
Charges for Services		3,142,989				\$ 5,171,864			8,314,853
Investment Earnings	2,615	9,273,500	149,763	\$ 290	\$ 783		\$ 87,926	\$ 183,189	9,698,066
Fines and Forfeits	576,929	1,524,610							2,101,539
Monetary Settlements		1,167,952							1,167,952
Sale of Documents, Merchandise and Property		4,612							4,612
Rentals, Leases and Royalties		6,746	19,575						26,322
Grants, Contracts, and Donations		449,069	8,173			84,151	1,945,088		2,486,481
Transfers-in		3,780,271	2,500,000	319,795				1,200,000	7,800,066
Loan Proceeds		676,886							676,886
Federal Indirect Cost Recoveries						2,453,804			2,453,804
Miscellaneous	552	518,459	2,500	118,862		21,793			662,166
Federal			32,397,540						32,397,540
Total Revenues & Transfers-In	592,096	31,518,417	35,080,052	438,946	783	7,731,612	2,033,014	1,383,189	78,778,110
Less: Nonbudgeted Revenues & Transfers-In	568,382	13,297,473	11,549,161	477,732	783	105,944	2,033,014	1,383,189	29,415,680
Prior Year Revenues & Transfers-In Adjustments	(176)	(81,962)	2,501	(38,786)		176,874			58,451
Actual Budgeted Revenues & Transfers-In	23,890	18,302,905	23,528,390	0	0	7,448,794	0	0	49,303,979
Estimated Revenues & Transfers-In	12,576	24,426,059	27,080,134			7,584,550			59,103,319
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 11,314	\$ (6,123,154)	\$ (3,551,744)	\$ 0	\$ 0	\$ (135,756)	\$ 0	\$ 0	\$ (9,799,340)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS									
Licenses and Permits	\$ 7,500	\$ (1,644,591)							\$ (1,637,091)
Taxes			\$ (530)						(530)
Charges for Services		(1,734,291)				\$ 242,228			(1,492,063)
Investment Earnings	814	(257,833)	548						(256,471)
Fines and Forfeits	3,000	(594,844)							(591,844)
Monetary Settlements		(16)							(16)
Sale of Documents, Merchandise and Property		(1,000)							(1,000)
Rentals, Leases and Royalties			9,975						9,975
Contributions and Premiums						(500)			(500)
Grants, Contracts, and Donations		(2,174,703)	(65,927)						(2,240,630)
Transfers-in		(87,355)							(87,355)
Loan Proceeds		241,386							241,386
Federal Indirect Cost Recoveries						(361,234)			(361,234)
Miscellaneous		130,544				(16,250)			114,294
Federal		(450)	(3,495,810)						(3,496,260)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 11,314	\$ (6,123,154)	\$ (3,551,744)	\$ 0	\$ 0	\$ (135,756)	\$ 0	\$ 0	\$ (9,799,340)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS									
Licenses and Permits	\$ 4,000	\$ 11,743,428							\$ 11,747,428
Taxes	69		\$ 2,543						2,613
Charges for Services		2,532,967	18,383			\$ 5,041,812			7,593,162
Investment Earnings	2,236	5,409,219	89,365	\$ 130			\$ 27,114	\$ 251,926	5,779,990
Fines and Forfeits	259,865	1,108,560							1,368,425
Monetary Settlements		626,296							626,296
Sale of Documents, Merchandise and Property		2,975	750						3,725
Rentals, Leases and Royalties		1,250	13,533						14,783
Grants, Contracts, and Donations		855,980	31,826			80,809	494,714		1,463,329
Transfers-in		4,374,327	8,100,000	360,687	\$ 2,933,128			1,200,000	16,968,143
Capital Asset Sale Proceeds		20,476							20,476
Non-monetary Settlements		1,167,190							1,167,190
Loan Proceeds		2,120,026							2,120,026
Federal Indirect Cost Recoveries						2,518,714			2,518,714
Miscellaneous	1,408	652,144	4,135	95,056		4,424			757,167
Federal			58,022,776						58,022,776
Total Revenues & Transfers-In	267,578	30,614,841	66,283,313	455,873	2,933,128	7,645,758	521,827	1,451,926	110,174,245
Less: Nonbudgeted Revenues & Transfers-In	252,609	9,911,904	24,137,284	455,873	2,933,128	85,233	521,827	1,451,926	39,749,785
Prior Year Revenues & Transfers-In Adjustments		359,307	2,613			(2,155)			359,764
Actual Budgeted Revenues & Transfers-In	14,969	20,343,630	42,143,416	0	0	7,562,681	0	0	70,064,696
Estimated Revenues & Transfers-In	17,232	20,402,470	42,162,383			7,563,800			70,145,885
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (2,263)	\$ (58,840)	\$ (18,967)	\$ 0	\$ 0	\$ (1,119)	\$ 0	\$ 0	\$ (81,189)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS									
Licenses and Permits	\$ (598)	\$ 4,897							\$ 4,299
Taxes	(1)		\$ (462)						(463)
Charges for Services	(1,292)	(2,738)	(167)			\$ (390)			(4,587)
Investment Earnings	(64)	(36,011)	(417)						(36,492)
Fines and Forfeits	(308)	(19,544)							(19,852)
Monetary Settlements		(16)							(16)
Capital Contributions		(559)							(559)
Sale of Documents, Merchandise and Property		(50)							(50)
Rentals, Leases and Royalties		(500)	(117)						(617)
Contributions and Premiums						(500)			(500)
Grants, Contracts, and Donations		(815)	(175)						(990)
Transfers-in		(1,160)	(50)						(1,210)
Bond Proceeds		(1)							(1)
Loan Proceeds		(974)							(974)
Federal Indirect Cost Recoveries						(230)			(230)
Miscellaneous		(901)							(901)
Federal		(468)	(17,579)						(18,047)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (2,263)	\$ (58,840)	\$ (18,967)	\$ 0	\$ 0	\$ (1,119)	\$ 0	\$ 0	\$ (81,189)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Air, Energy & Mining Division	Centralized Services Division	Enforcement Division	Petroleum Tank Release Compensation Board	Waste Management & Remediation Division	Water Quality Division	Total
Personal Services							
Salaries	\$ 6,161,559	\$ 4,016,859	\$ 773,584	\$ 250,432	\$ 6,078,551	\$ 7,496,312	\$ 24,777,298
Employee Benefits	2,113,284	1,031,483	284,499	107,912	2,163,467	2,597,411	8,298,056
Personal Services-Other		56,779					56,779
Total	8,274,843	5,105,121	1,058,083	358,344	8,242,018	10,093,724	33,132,132
Operating Expenses							
Other Services	3,563,788	1,768,578	23,810	70,445	35,959,334	2,822,231	44,208,185
Supplies & Materials	248,764	214,022	23,916	9,041	323,725	341,454	1,160,922
Communications	121,809	230,567	12,084	4,478	134,703	133,742	637,383
Travel	197,755	48,364	17,340	7,087	171,717	195,748	638,011
Rent	223,839	1,527,449	12,853		85,854	151,756	2,001,751
Utilities	12,712	3,842			24,250		40,803
Repair & Maintenance	72,834	103,559	41		7,242	3,940	187,616
Other Expenses	2,174,635	489,902	283,162	88,539	2,681,003	2,739,622	8,456,863
Total	6,616,137	4,386,283	373,208	179,589	39,387,827	6,388,492	57,331,535
Equipment & Intangible Assets							
Equipment	165,573	32,500			26,442	33,101	257,616
Total	165,573	32,500			26,442	33,101	257,616
Capital Outlay							
Land & Interest In Land					328,681		328,681
Total					328,681		328,681
Grants							
From State Sources					5,547,273	204,323	5,751,596
Total					5,547,273	204,323	5,751,596
Benefits & Claims							
From State Sources				3,219,784			3,219,784
Total				3,219,784			3,219,784
From Other Sources							
Distrib from Priv Purp Trusts	358,837						358,837
Total	358,837						358,837
Transfers-out							
Fund transfers	909,737	214,306		8,676	20,267,580	11,537,335	32,937,634
Total	909,737	214,306		8,676	20,267,580	11,537,335	32,937,634
Debt Service							
Bonds	829,173				268,525		1,097,698
Total	829,173				268,525		1,097,698
Post Employment Benefits							
Other Post Employment Benefits		147,583					147,583
Employer Pension Expense		235,817					235,817
Total		383,400					383,400
Total Expenditures & Transfers-Out	\$ 17,154,299	\$ 10,121,609	\$ 1,431,291	\$ 3,766,393	\$ 74,068,346	\$ 28,256,975	\$ 134,798,914
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 1,704,502	\$ 320,213	\$ 565,761		\$ 340,055	\$ 2,519,910	\$ 5,450,440
State Special Revenue Fund	9,425,132	1,441,469	484,392	\$ 3,766,393	64,968,305	6,619,458	86,705,148
Federal Special Revenue Fund	4,108,134	399,707	381,138		8,491,033	19,117,608	32,497,620
Debt Service Fund	1,589,816				268,525		1,858,341
Internal Service Fund	(32,121)	7,960,220			429		7,928,528
Private Purpose Trust Fund	358,837						358,837
Total Expenditures & Transfers-Out	17,154,299	10,121,609	1,431,291	3,766,393	74,068,346	28,256,975	134,798,914
Less: Nonbudgeted Expenditures & Transfers-Out	1,992,542	302,356			53,226,466	11,535,543	67,056,906
Prior Year Expenditures & Transfers-Out Adjustments	(163,400)	1,621		(232,916)	203,266	(100,703)	(292,133)
Actual Budgeted Expenditures & Transfers-Out	15,325,157	9,817,633	1,431,291	3,999,309	20,638,615	16,822,135	68,034,140
Budget Authority	24,547,225	15,904,415	1,445,717	6,642,701	37,395,003	18,892,504	104,827,564
Unspent Budget Authority	\$ 9,222,068	\$ 6,086,782	\$ 14,426	\$ 2,643,392	\$ 16,756,388	\$ 2,070,369	\$ 36,793,424
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 250,006	\$ 17,273	\$ 1,511		\$ 4,215	\$ 3,176	\$ 276,181
State Special Revenue Fund	5,034,992	3,292,494	10,585	\$ 2,643,392	8,097,345	334,275	19,413,083
Federal Special Revenue Fund	1,933,113	2,206,658	2,331		7,954,827	1,732,918	13,829,847
Capital Projects Fund	2,003,956				700,000		2,703,956
Internal Service Fund		570,357					570,357
Unspent Budget Authority	\$ 9,222,068	\$ 6,086,782	\$ 14,426	\$ 2,643,392	\$ 16,756,388	\$ 2,070,369	\$ 36,793,424

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Central Management Program	Enforcement Division	Permitting & Compliance Division	Petroleum Tank Release Compensation Board	Planning Prevention & Assistance Division	Remediation Division	Total
Personal Services							
Salaries	\$ 3,969,295	\$ 751,917	\$ 10,749,913	\$ 255,896	\$ 4,937,820	\$ 4,148,524	\$ 24,813,364
Employee Benefits	970,259	264,360	3,692,052	100,116	1,592,157	1,421,193	8,040,138
Personal Services-Other	(10,075)						(10,075)
Total	<u>4,929,479</u>	<u>1,016,277</u>	<u>14,441,965</u>	<u>356,012</u>	<u>6,529,977</u>	<u>5,569,716</u>	<u>32,843,427</u>
Operating Expenses							
Other Services	1,469,406	29,206	3,275,134	246,004	3,318,378	39,270,481	47,608,609
Supplies & Materials	209,273	26,439	476,512	13,719	258,756	145,270	1,129,969
Communications	258,963	16,423	251,393	6,036	71,465	159,141	763,422
Travel	45,254	13,619	296,596	3,687	176,346	116,371	651,872
Rent	1,397,189	11,333	173,744		39,101	45,936	1,667,303
Utilities	3,957		12,675		26	31,884	48,542
Repair & Maintenance	67,982	222	9,049	554	5,119	13,183	96,109
Other Expenses	<u>477,946</u>	<u>1,284,563</u>	<u>3,612,050</u>	<u>76,590</u>	<u>1,776,545</u>	<u>1,891,781</u>	<u>9,119,475</u>
Total	<u>3,929,969</u>	<u>1,381,805</u>	<u>8,107,154</u>	<u>346,590</u>	<u>5,645,736</u>	<u>41,674,047</u>	<u>61,085,300</u>
Equipment & Intangible Assets							
Equipment		<u>135,379</u>	<u>89,670</u>		<u>7,235</u>	<u>28,614</u>	<u>260,898</u>
Total		<u>135,379</u>	<u>89,670</u>		<u>7,235</u>	<u>28,614</u>	<u>260,898</u>
Capital Outlay							
Buildings			<u>15,283</u>				<u>15,283</u>
Total			<u>15,283</u>				<u>15,283</u>
Grants							
From State Sources			<u>803,108</u>				<u>803,108</u>
Total			<u>803,108</u>				<u>803,108</u>
Benefits & Claims							
From State Sources				<u>5,129,617</u>			<u>5,129,617</u>
Total				<u>5,129,617</u>			<u>5,129,617</u>
From Other Sources							
Distrib from Priv Purp Trusts			<u>209,376</u>				<u>209,376</u>
Total			<u>209,376</u>				<u>209,376</u>
Transfers-out							
Fund transfers	<u>80,851</u>		<u>1,136,856</u>	<u>66,251</u>	<u>27,300,062</u>	<u>9,672,169</u>	<u>38,256,189</u>
Total	<u>80,851</u>		<u>1,136,856</u>	<u>66,251</u>	<u>27,300,062</u>	<u>9,672,169</u>	<u>38,256,189</u>
Debt Service							
Bonds			<u>187,015</u>		<u>639,475</u>	<u>271,706</u>	<u>1,098,196</u>
Total			<u>187,015</u>		<u>639,475</u>	<u>271,706</u>	<u>1,098,196</u>
Post Employment Benefits							
Other Post Employment Benefits	152,250						152,250
Employer Pension Expense	<u>228,667</u>						<u>228,667</u>
Total	<u>380,918</u>						<u>380,918</u>
Total Expenditures & Transfers-Out	\$ <u>9,321,216</u>	\$ <u>2,533,461</u>	\$ <u>24,990,427</u>	\$ <u>5,898,469</u>	\$ <u>40,122,485</u>	\$ <u>57,216,253</u>	\$ <u>140,082,312</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 350,386	\$ 543,008	\$ 1,755,679		\$ 2,666,929		\$ 5,316,002
State Special Revenue Fund	1,150,251	1,643,665	14,744,510	\$ 5,898,469	7,081,203	\$ 37,386,414	67,904,512
Federal Special Revenue Fund	403,229	346,788	7,032,884		29,533,378	19,557,632	56,873,911
Debt Service Fund			1,247,414		840,975	272,206	2,360,595
Internal Service Fund	7,417,350		565				7,417,915
Private Purpose Trust Fund			<u>209,376</u>				<u>209,376</u>
Total Expenditures & Transfers-Out	<u>9,321,216</u>	<u>2,533,461</u>	<u>24,990,427</u>	<u>5,898,469</u>	<u>40,122,485</u>	<u>57,216,253</u>	<u>140,082,312</u>
Less: Nonbudgeted Expenditures & Transfers-Out	90,267	1,166,539	1,533,079	(389)	28,005,309	39,053,118	69,847,923
Prior Year Expenditures & Transfers-Out Adjustments	<u>(78,263)</u>	<u>4,842</u>	<u>(177,716)</u>	<u>(211,636)</u>	<u>(156,882)</u>	<u>144,415</u>	<u>(475,241)</u>
Actual Budgeted Expenditures & Transfers-Out	9,309,213	1,362,080	23,635,064	6,110,495	12,274,058	18,018,720	70,709,629
Budget Authority	<u>12,284,454</u>	<u>1,426,330</u>	<u>33,289,382</u>	<u>7,351,489</u>	<u>15,424,849</u>	<u>47,260,714</u>	<u>117,037,218</u>
Unspent Budget Authority	\$ <u>2,975,242</u>	\$ <u>64,250</u>	\$ <u>9,654,317</u>	\$ <u>1,240,995</u>	\$ <u>3,150,791</u>	\$ <u>29,241,994</u>	\$ <u>46,327,589</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 56,808	\$ 13,336	\$ 33,810		\$ 36,832		\$ 140,786
State Special Revenue Fund	1,441,903	11,806	8,500,127	\$ 1,240,995	512,537	\$ 6,810,943	18,518,309
Federal Special Revenue Fund	1,058,121	39,108	1,120,381		1,864,922	21,731,051	25,813,584
Capital Projects Fund					736,500	700,000	1,436,500
Internal Service Fund	<u>418,409</u>						<u>418,409</u>
Unspent Budget Authority	\$ <u>2,975,242</u>	\$ <u>64,250</u>	\$ <u>9,654,317</u>	\$ <u>1,240,995</u>	\$ <u>3,150,791</u>	\$ <u>29,241,994</u>	\$ <u>46,327,589</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-9.

# Department of Environmental Quality

## Notes to the Financial Schedules

### For the Two Fiscal Years Ended June 30, 2016

## **1. Summary of Significant Accounting Policies**

### **Basis of Accounting**

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Capital Projects, Debt Service, and Permanent). In applying the modified accrual basis, the department records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Internal Service) and Fiduciary (Private-Purpose Trust) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

### **Basis of Presentation**

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

### **Governmental Fund Category**

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.

- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include permitting and compliance activity for Air Quality Permits, Public Water Supply, Water and Waste Water Operator Certification, Subdivision Review, Montana Pollutant Discharge Elimination System (MPDES), Hard Rock, Coal, Uranium and Opencut Mining, Major Facility Siting, Asbestos Control, Hazardous Waste Management, Junk Vehicle Disposal, Septic Tank Pumper Certification and disposal site inspections, Solid Waste Management and Underground Storage Tanks. In addition to the permitting and compliance activities, the State Special Revenue Fund includes the Department's Alternate Energy Loan Program and State Building Energy Conservation Program, Orphan Share, Petroleum Tank Release Cleanup, Hard Rock Mining Reclamation, Environmental Quality Protection Fund (State Superfund), and various reclamation bond forfeiture and settlement accounts including Upper Blackfoot Mining Complex, Streamside Tailings, Montana Post and Pole, and Clark Fork remedial action accounts.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include federal assistance programs such as the Water Pollution Control and Drinking Water State Revolving Funds, Performance Partnership Grants, Abandoned Mine Lands Reclamation Grant, as well as other federal grants and agreements.
- ♦ **Debt Service Fund** – to account for accumulated resources for the payment of general long-term debt principal and interest. The department uses this fund for recording debt service principal and interest payments for state Hard Rock Mining Reclamation Bonds, Energy Conservation Bonds, and Comprehensive Environmental Response, Compensation and Liability Bonds.
- ♦ **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The department uses this fund for accounting for resources recovered from state agencies and component units for repayment of State Buildings Energy Conservation Program projects that are legally committed for construction of future State Building Energy Conservation projects.
- ♦ **Permanent Fund** – to account for financial resources that are permanently restricted to the extent that only earnings, and not principal, may be used for purposes that support the department's programs. The legislature created a trust fund in fiscal year 2005-06 to cover the long-term costs of water treatment in the area of the Zortman-Landusky mines. The trust is financed from an annual transfer of \$1.2 million from the orphan share fund until fiscal year 2017-18 or until the balance reaches \$19.3 million. The department uses this fund for accounting for this trust.

## **Proprietary Fund Category**

- ♦ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. Department Internal Service Funds include indirect charges assessed against all units of the department by the Central Management Program for providing department-wide support functions and services.

## **Fiduciary Fund Category**

- ♦ **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. Department private-purpose trust funds include financial resources held in trust related to permitting activities.

## **2. Fund Equity Balance**

- ♦ **General Fund** - The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2015 and June 30, 2016.
- ♦ **Internal Service Fund** – The negative fund equity balance in the Internal Service Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from this fund within its appropriation limits. Due to generally accepted accounting principles for post-employment benefits and pension liabilities, the department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending Internal Service Fund equity balances for each of the fiscal years ended June 30, 2015 and June 30, 2016.

## **3. Direct Entries to Fund Equity**

Direct entries to fund equity in the General, State Special Revenue, Federal Special Revenue, Debt Service, Capital Projects, and Internal Service funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

## **4. Non Budgeted Revenues & Transfers-In**

In the Schedule of Total Revenues and Transfers-In, in the Federal Special Revenue Fund, the non-budgeted revenues and transfers-in were \$11.5 Million and \$24.1 Million in fiscal year 2015-16 and 2014-15, respectively, a decrease of \$12.6 Million. This is

attributable to a decrease in expenditures in the two State Revolving Loan Programs for Drinking Water and Waste Water. There was a decrease in Drinking Water expenses of \$7.3 Million between 2014-15 and 2015-16 and a corresponding decrease in Waste Water expenses of \$5.3 Million between 2014-15 and 2015-16 respectively. These grants from EPA are multi-year grants and therefore an analysis of the amount expensed within any twelve month period is not indicative of any problems or issues with these programs.

In the State Special Revenue Fund, the nonbudgeted revenues and transfers-in were \$13.2 million and \$9.9 million in fiscal year 2015-16 and 2014-15, respectively, an increase of \$3.3 million. The change is primarily attributed to a \$5.8 million increase in Board of Investment earnings in fiscal year 2015-16 over 2014-15.

## **5. Fund Transfers**

The fund transfers in the Schedule of Expenditures and Transfers-Out in the Planning, Prevention and Assistance program contained transfers-out of federal funds in the amounts of \$11.5 million and \$24.1 million for the fiscal years 2015-16 and 2014-15, respectively, for the Federal Drinking and Clean Water State Revolving Fund programs. The transfers were made to the Department of Natural Resources and Conservation for disbursement to local governments for construction of water and wastewater system improvements. Additionally, the 2014-15 transfer-outs include a \$2.9 million transfer for the biennium from the Energy Conservation Repayment Account to the Energy Conservation Capital Projects Account in accordance with §§90-4-615 and 617, MCA.

## **6. Unspent Budget Authority**

The unspent budget authority in the Federal Special Revenue Fund in the amount of \$7.9 million and \$21.7 million in fiscal years 2015-16 and 2014-15, respectfully, in the Schedule of Expenditures and Transfers-Out for the Remediation Division consist primarily of budget amendment authority (HB4) for multi-year Abandoned Mine Lands (AML) federal reclamation grants.

## **7. Agency Reorganization**

During fiscal year 2016 DEQ went through a major reorganization that impacted three of the largest programs in the agency. The programs impacted were programs 20, 40 and 50. Previously known as the Permitting & Compliance Division, program 50 is now the Air, Energy, and Mining Division. Program 50 gave up the Water Protection Bureau, and the Public Water Supply and Subdivision Bureau to the new Program 20, now known as the Water Quality Division, and gained the Energy and Pollution

Prevention Bureau from program 20, previously known as the Planning, Prevention and Assistance Division. WUTMB (Waste Management and Underground Tank Management Bureau) also moved out of program 50 to program 40, the Remediation Division, which was renamed the Waste Management & Remediation Division.

The net impact to the programs were Program 50 lost \$9.2 Million in budget authority and 90 FTE, Program 20 gained \$4 Million in budget authority and 56 FTE, and Program 40 gained \$5.2 Million in budget authority and 34 FTE. Because of this extensive reorganization in 2016 it is very difficult to compare program expenditures and revenues from 2015 to 2016 for programs 20, 40, and 50.



# **Report on Internal Control and Compliance**



# LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
Joe Murray

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Environmental Quality (department) for each of the fiscal years ended June 30, 2016, and 2015, and the related notes to the financial schedules, and have issued our report thereon dated September 30, 2016.

### *Internal Control Over Financial Reporting*

In planning and performing our audit of the financial schedules, we considered the department's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify

any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the department's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

*Purpose of this Report*

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

September 30, 2016

DEPARTMENT OF  
ENVIRONMENTAL QUALITY

DEPARTMENT RESPONSE





October 18, 2016

Mr. Angus Maciver  
Legislative Auditor  
Legislative Audit Division  
PO Box 201705  
Helena, MT 59620-1705

RECEIVED  
OCT 19 2016  
LEGISLATIVE AUDIT DIV.

RE: Financial-Compliance Audit #16-16

Dear Mr. Maciver:

Thank you for the opportunity to respond to the Financial-Compliance Audit #16-16 for the Department of Environmental Quality. I have reviewed the Financial-Compliance Audit for the two fiscal years ending June 30, 2016 and have no comments or exceptions to your report.

I want to thank you and your staff for your professionalism and fairness during the audit field work and conferences. We appreciate the services your staff provided in reviewing the Department's procedures, internal controls, and accounting practices. We always look upon the audit process as an opportunity to improve the Department's operations and performance. We will continue to strive to improve the fiscal management of the Department of Environmental Quality and appreciate the guidance provided by your office.

I am available to answer questions or provide further information that you or the Legislative Audit Committee may require.

Sincerely,

A handwritten signature in cursive script that reads "Tom Livers".

Tom Livers  
Director  
Department of Environmental Quality